



SPECIAL REPORT

Portuguese Legislative Election 2015: the search for governability

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1. THE 5 KEY IDEAS REGARDING THE ELECTION

1. On the election night, Pedro Passos Coelho said that he wanted to advance in the forming of the government through the centre-right coalition Portugal à Frente (PàF: PSD+CDS/PP), on the basis of the legislative election which he won, obtaining a relative majority. This scenario requires a consensus and will make it necessary to seek alliances with other parties, both to make the government programme viable and for the remaining issues. Thus the door has been opened to negotiations during the 13th presidency. Another aspect to be highlighted is the fact that, within the group of countries that were subject to financial intervention, Portugal was the only one where the ruling parties won the election. More specifically, the Coalition won, but it lost 25 MPS in the National Assembly of the Republic with respect to the 2011 Legislative Election, though dropping from 129 to 104.
2. The second largest party PS (Partido Socialista), was the main loser in the election night, remaining six points behind the coalition. Even though the PS has lost the election, its number of MPs increased with respect to 2011, from 74 to 85. After this defeat, the PS will hold a congress to define the party strategy and leadership, in principle in January 2016.
3. The Bloco de Esquerda (BE), which until now had been the fourth political force, was the great surprise on the election night, becoming the third most voted party in Portugal, surpassing the Portuguese Communist Party, both in terms of votes and of MPs. It had 10.22 % of votes, corresponding to 19 MPs, thus more than doubling its 2011 result, when it obtained 8 MPs in the National Assembly.
4. There is a new party with MPs in the National Assembly - this was the second surprise of the night of October 4th: Its name is PAN - Pessoas-Animais-Natureza (People-Animals-Nature) - and it was created in 2009, first took part in the 2011 Legislative Election, and has now obtained its first MP in 2015. Oddly enough, it was the only small party capable of achieving this feat, going from 1.04 % of votes to 1.39 %, enough to make it possible to elect an MP.
5. At the end of October 6, the President of the Republic welcomed the leader of the coalition PàF and subsequently he informed the country that Pedro Passos Coelho was given the task of dialoguing with the remaining political parties, in particular with PS, the second most voted, to reach an agreement and form a stable and lasting government.

“Between the end of October and beginning of November a formed and ready to rule government should be established”

The Head of State, Cavaco Silva, claims that this is “*the time for commitment*” necessary among the different parties. Therefore he maintains his call for maturity and capacity for dialogue of the parties, essential in democratic regimes, in order to assure political stability for Portugal and financial stability for creditors. During his communication the night of October 6 he also highlighted the necessity for the future government to respect international commitments, specifically the membership of NATO, European Union and Eurozone.

The President of the Republic can not appoint the Prime Minister before the publication of the official results in the Diário da República, which happens after the final balance sheet of the results.

This balance sheet takes place ten days after the electoral act, therefore from 14 October. For example in 2009 the government took office 29 days after the elections and in 2011 the government took office 16 days later.

Between the end of October and beginning of November a formed and ready to rule government should be established.

2. THE ELECTIONS ANALYZED BY EXPERTS: JAIME NOGUEIRA PINTO AND ANDRÉ MACEDO

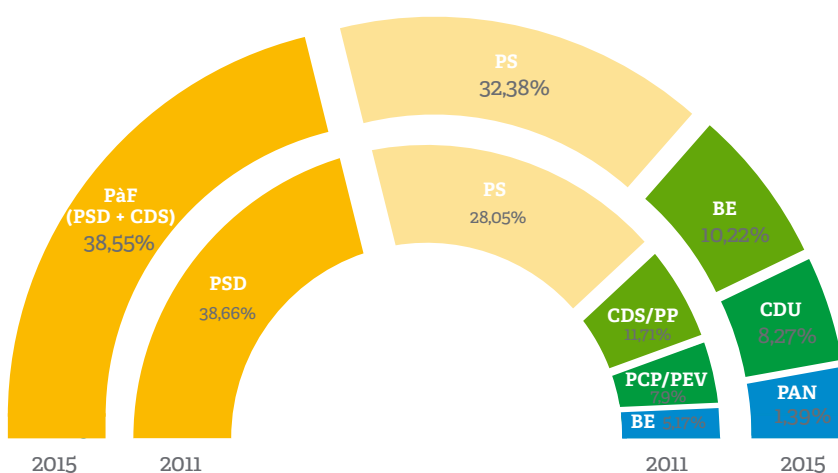
JAIME NOGUEIRA PINTO: THE LEGISLATIVE ELECTION IN PORTUGAL - OUTCOME AND CONSEQUENCES

The legislative election of 4 October led to surprises and contradictions and posed questions about Portugal's governability.

The Facts: The first surprise, after four years of hard austerity, the centre-right coalition, Portugal à Frente (PàF), constituted by the parties PSD and CDS, headed by Passos Coelho and Paulo Portas. It has become the most voted option, with 38 % of votes and 104 of the 230 Parliament seats (even before the allocation of the four Emigration seats).

Although the surveys in recent weeks had reflected this trend, it had not existed at the beginning of the summer. The election campaign made all the difference. The Socialist Party (PS), with about 32.4% of votes and 85 seats, did much worse than expected.

Figure 1: Percentage of votes in 2015 and 2011



Source: 2015: SIC online / 2011: CNE – Comissão Nacional de Eleições

The PS is a party with a social-democrat and pro-European tradition, sometimes with a "leftist" rhetoric.

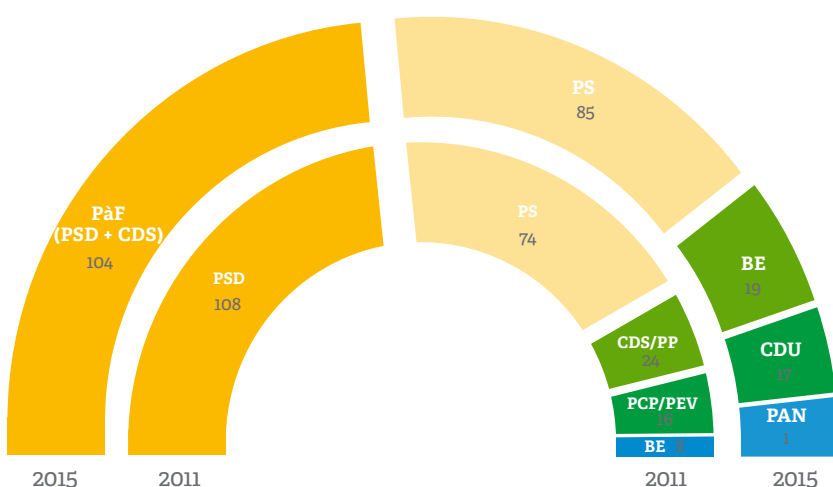
In the campaign, its leader, António Costa, the former Chairman of the Lisbon City Council, taking the Centre-Left for granted, made excessive use of rhetoric to capture the useful vote from the Left. But he failed. Another surprise was the Bloco de Esquerda, a party founded in 2000 by Trotskyists, radical Marxists, and dissidents from the Portuguese Communist Party. The BE follows a utopian, revolutionary line, anti-Europe and anti-globalisation, similar to Podemos and Syriza. Its success lays in obtaining the vote from the ideological Left, leading it away from the "useful vote" for the PS, which, being pro-Europe, would necessarily follow an identical policy to that of the PSD-CDS coalition.

It also won due to the central role of its leaders, Catarina Martins and Mariana Mortágua. With more than 10 % of votes, almost 550,000 voters, it achieved its best results ever, doubling the number of votes and obtaining 19 seats in Parliament (it previously had 8).

This was bad for the PS, but also for the PCP, the Portuguese Communist Party, which took part in the election as part of the CDU coalition, with the Green Party. The PCP is an orthodox Marxist party which, for the first time, was surpassed by the radical Left; it has always followed a line inspired in Soviet Leninism, and managed to escape the fate of Communist parties in Italy, France, and Spain. Despite lagging behind the BE (a symbolic humiliation), it gained one MP, from 16 to 17, and obtained almost 8,3 % of votes.

The Consequences: The outcome has posed serious problems for governability, which will depend both on the winners and on the losers. This is because the winner - the PàF coalition - lost (in terms of votes and seats with respect of the 2011 election), and the losers increased the votes and seats. The coalition is in a minority with respect to a potential coalition of all the other parties - PS, BE, and CDU. But this would be a negative coalition, as the PS's entire tradition is anti-Frente Popular and Communists will never be part of a PS government. The BE might do so, and the CDU might facilitate it in Parliament, but this would not

Figure 2: Number of MPs in 2015 and 2011



Source: 2015: SIC online / 2011: CNE – Comissão Nacional de Eleições

“This scepticism is also obvious in the abstention rate - at 43%, the highest percentage ever in a Legislative Election”

only go against tradition in the PS, but also against the wishes of most of their voters - and António Costa is not a leader who is fond of breaks with tradition.

In any case, after the aggressiveness displayed during the campaign against the coalition, it will not be easy for the PS to reach a "central block" commitment, supporting the PSD-CDS government, even if only on a circumstantial basis.

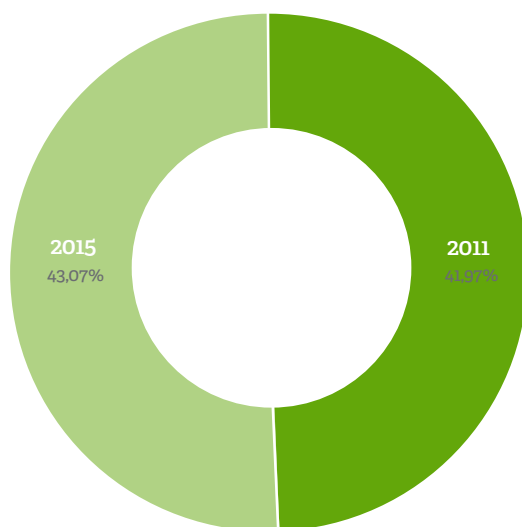
It is only natural for President Cavaco Silva to encourage Passos Coelho to form the government, but this government will remain ultimately dependent on the PS in the future, such as in the voting of the Budget. Costa decided to remain the leader, despite the relative failure of 4 October, but critics within the PS have already

demanded a Congress. For this reason, Costa is a hostage to fortune and to its unknowns.

The radical Left - BE and PCP - have the highest number of MPs in many legislative terms, with almost 20 % of the votes, which, added to small Leftists parties, amount to almost 25 %. It benefited from the fact that in Greece, Tsipras's Left finally followed the policy dictated by the Troika, which generated more scepticism regarding the electoral contract in countries whose European Union and Euro Zone membership and dependence on the Debt constrain their sovereignty.

This scepticism is also obvious in the abstention rate - which, at 43%, the highest percentage ever in a Legislative Election, was for many the great winner of 4 October.

Figure 3: Percentage of abstention in 2015 and 2011

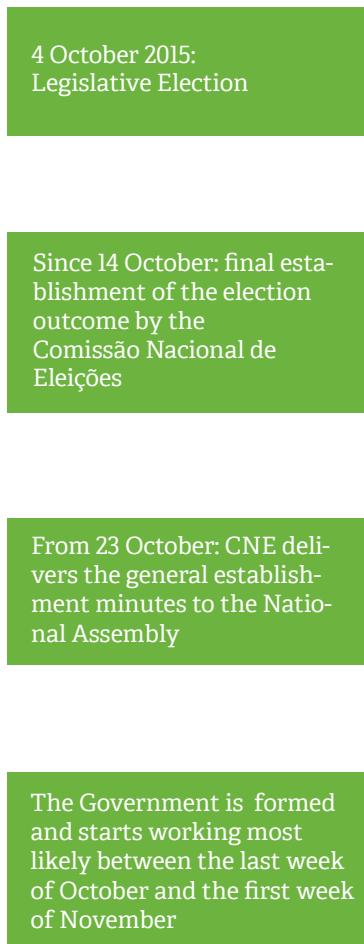


Source: 2015: SIC online / 2011: CNE – Comissão Nacional de Eleições

ANDRÉ MACEDO: A COUNTRY TO INVEST IN

The best outcome for Portugal would be the election of an absolute majority government, able to approve the next State budget, thus ensuring the political stability required for the post-Troika period to finally become a mere memory - and yet a disgrace not to be forgotten - but no longer a constant threat. However, this was not what the Portuguese voted for on the night of 4 October, in one of the most important elections in recent years.

Figure 4: Post-election timeline



Nonetheless, Passos Coelho and Paulo Portas, the leaders of the centre-right coalition, won the election by a wide margin. This outcome would have been unthinkable one year ago, perhaps even more recently. No European government that had the thankless task of implementing the Troika policies - the infamous "men in black" - managed to be re-elected. Hence the huge political capacity of the PSD (Social Democrat Party) and the CDS (Centro Democrático e Social) should be pointed out, as they have been able to win after four hard, leaden years, due to Portugal's bailout in 2011.

Even so, the final outcome is insufficient for it to be alone in Parliament. Some kind of party alliance, even a slight and temporary one, will be required for the government programme to be approved in the National Assembly, opening the way to the 2016 Budget - an essential piece if the country is not to be overrun once again by the unstoppable market.

António Costa, who is still the leader of the Socialist Party, does not completely discard this possibility - a temporary agreement with the Centre-Right - although he has made it clear that it will charge for it. If he is too ambitious, that is, if he believes that he is in a position to demand everything of the next Government, he will damage the country - by placing it at risk - and subvert the meaning of yesterday's election: he lost, Passos and Portas won.

António Costa, more than ever, must be prudent and exclude no options, leaving the political leadership of this process to Passos Coelho and Paulo Portas, as this was what the Portuguese people clearly voted for. On the night of Sunday 4 October, the Portuguese Prime Minister made the right speech, in the right tone, with the right degree of openness. He was up to the task and perceived what was essential: even though he had won, he will have to negotiate and build bridges as he does not have a majority of MPs. He started to do this by choosing the right words to celebrate his victory - with no triumphalism and with his feet firmly on the ground.

This liberal Government will probably be short-lived - one year, perhaps no more, because minority governments do not last long in Portugal. But there is much to do until then. Ensuring the approval of a State Budget capable of complying with European targets in 2016 and relaunching the economy are the two main goals. If Passos Coelho is able to do these two things, Portugal will continue to be an interesting destination for investors, apart from anything else because this election guaranteed that corporate tax will remain on a downward trend, thus joining the most fiscally competitive countries in the European Union. This is not all, but it is something. Definitely, Portugal is not Greece.

3. . BIOGRAPHY OF THE PRIME MINISTER

PEDRO PASSOS COELHO



Pedro Manuel Mamede Passos Coelho is 52 years old. He was born in Coimbra on 24 July 1964. He lived in Angola until the age of 9, and spent his teenage years in Vila Real, in Northern Portugal. He is married and has three daughters. He lives in Sintra, Greater Lisbon. He holds a degree in Economics by Universidade Lusíada de Lisboa. He is the president of the PSD - the Social Democrat Party - and since 2011 has been the Portuguese Prime Minister.

Political Activity

Passos Coelho is the president of the centre-right party PSD and a supporter of the possible future candidate to the presidency of the Republic, the Social-Democrat Marcelo Rebelo de Sousa.

Politically active from a young age, he joined the Social Democrat Youth - JSD - in 1978 and for five years, between March 1990 and December 1995, was the president of the JSD and the person who held this leadership for the longest period. In 1991 he served as Vice-President and Spokesman for the Social Democrat Party - PSD - in the National Assembly.

Between 1997 and 2001 he was a Councillor in the Amadora Town Hall, and during this period he founded the movement Pensar Portugal. In the last decade, he worked in business management

in the energy and environmental industries, and also taught and held the presidency of the Vila Real Town Hall.

In 2008 he founded the Construir Ideias Platform for Strategic Reflection for the analysis and discussion of the main topics of the national political agenda.

In 2010 he was elected President of the PSD.

He took office as Prime Minister of the 19th Constitutional Government on 21 June 2011, after the early legislative election held on 5 June 2011, which were characterised by the resignation of the then Prime Minister José Sócrates.

4. OTHER MAIN ACTORS

ANTÓNIO COSTA



António Luís Santos da Costa was born on 17 July 1961. He is married and has two children. He lives in Lisbon. He is the son of the writer Orlando da Costa, of Catholic Goan and French origin. He holds a degree in Legal and Political Science by the School of Law at Universidade Clássica de Lisboa, and a postgraduate degree in European Studies by the Universidade Católica de Lisboa. He works as a lawyer, and has been the Secretary General of the Socialist Party - PS - since November 2014.

Political Activity

He was defeated in the 4th October election, and will be holding a meeting in the Party headquarters on Tuesday 6th October with the MPs elected by the PS, as well as with the national Political Committee to analyse the results and their consequences. The PS Congress will be also discussed. Its date is still pending.

António Costa joined the Socialist Youth - JS - and later became a member of the Socialist Party.

Between 1982 and 1993, he was a member of the Lisbon Municipal Assembly; in 1991 he was elected a member of Parliament in the 6th Legislative Term, and was re-elected in the following term. Between 1987 and 1990, he was also a member of the Secretariat General of the Socialist Party, and joined that body again in 1994.

He was part of the 13th Constitutional Government of Portugal, led by António Guterres, first as State Secretary and, from 1997, as Minister for Parliamentary Affairs. He remained in the following Government as Minister of Justice. He held this position until 2002. Between 1997 and 1999, he was in charge of Parliamentary Affairs while organising the Expo 98. He was one of the parties responsible for the event's success.

Between 2001 and 2004, he led the Socialist Party's Parliamentary Group. From 2004 to 2005,

he served as a Euro MP and Vice-President in the European Parliament.

With José Sócrates's victory, António Costa was appointed Minister of State and of Internal Administration in 2005 and 2007, when he left this position to stand as a candidate in the Lisbon City Hall municipal election, which he won. This was one of the positions that gave him most visibility, and which he held from 1 August 2007 to 6 April 2015, when he left to stand as candidate for the position of Prime Minister.

PAULO PORTAS



Paulo de Sacadura Cabral Portas was born in Lisbon on 12 September 1962 and lives there. He was a journalist in various social communication media. He was a founder and the director in 1998 of the newspaper "O Independente". He holds a degree in Law by the Universidade Católica Portuguesa, where he taught the History of Political Thought. He is the current president of the CDS-PP - the People's Party - and the Deputy Prime Minister in the Government of Portugal, though the Centre-Right coalition 'Portugal À Frente'.

Political Activity

Paulo Portas was the president of the CDS-PP between 1998 and 2005 and since 2007 was an MP in the Republic in the 1995, 1999, 2002, 2005, 2009, and 2011 legisla-

tive terms, as a member of the Parliamentary Committees for Foreign Affairs and Defence. He was the leader of the CDS/PP Parliamentary Group from 1999 to 2001.

Until 24 July 2013, he was the Minister of State and of Foreign Affairs in the current Government; he was also the Minister of State and of Defence in the 15th and 16th Constitutional Gover-

nements. From 2002 to 2005 he was a member of the Council of State, a member of the High Council of Domestic Security, and a member of the High Council of National Defence.

He was elected as Councillor in the Lisbon City Hall in 2001 and a Euro MP in the 1999 European election. He was elected a member of the Arouca Municipal Assembly in 2009.

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Tiago Vidal is Managing Director of LLORENTE & CUENCA in Portugal. He served as Head of Corporate Communications at Sonae Sierra, leading all the B2B communication activities in the 14 countries where the company has a presence. In his 16 years at Sonae Sierra, he was in charge of reputation management, corporate marketing and PR, stakeholders relations, crisis communications, and media relations, supporting the company's development, both in business, including IPOs and mergers and acquisitions, and in rebranding matters, including the redefinition of the business structure and positioning. His experience also includes positions as Public Relations Manager at Centro Comercial Colombo, Account Manager at Imago, and resident lecturer in Advanced Public Relations and Crisis Management at the European Retail Property School of the International Council of Shopping Centres.

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André Macedo has been the director of Diário de Notícias since August 2014, after serving as the head of the financial area at the Controlinveste Media group, currently the Global Media Group. He is also a regular commentator at RTP. Previously, André Macedo was the executive director of the newspaper i, part of whose founding team he was. In addition, he also worked as part of management at Diário Económico, in Sábado magazine as editor-in-chief, in Correio da Manhã as editor of the politics section, in Focus magazine as finance editor, and in the sports newspaper Record. In the Global Media Group, André Macedo was the founder and head of the Dinheiro Vivo project. He holds a degree in Law by Lisbon University.

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